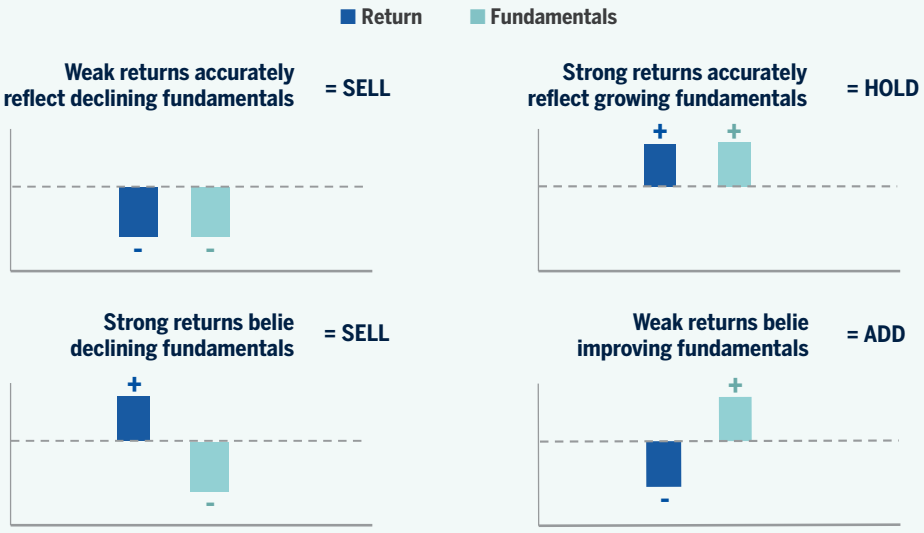
Weighing Investor Decisions

"In the short run, the market is a voting machine but in the long run, it is a weighing machine" –Benjamin Graham, Warren Buffett's mentor. As the quip implies, short-term stock price movements are driven by market sentiment while long-term price appreciation is determined by company fundamentals such as sales, earnings and cash flow. When evaluating an investment manager by their strategy and track record, we believe it is important to determine if performance was driven by portfolio fundamentals or not.

Four Potential Scenarios for Holding, Selling or Adding to a Portfolio



Source: Alger. This chart is for illustrative purposes only. The chart above describes four potential investment scenarios an investor may consider when focusing on the fundamentals of a portfolio's positions. Company fundamentals typically refer to the financial and operational information about a company that investors use to assess its overall health and potential for future growth. This includes considerations around the company's revenue, earnings, assets and liabilities, and cash flow.

- Evaluating a manager's performance in the context of market sentiment alone may not provide a sufficient basis for a long-term investment decision. Instead, by assessing the underlying fundamentals of a portfolio's positions, investors may be able to gain a better understanding of whether a manager's performance is a result of an accurate view of the sales and earnings power of their holdings, or if the strategy is just in or out of style.
- In the chart above, a portfolio with poor fundamentals over time, relative to a benchmark, may be a good candidate for being sold irrespective of performance (top-left and bottom-left). A portfolio with strong fundamentals and returns may be an investment that should be held (top-right). A portfolio with strong fundamentals and weak returns may be a good candidate for additional capital (bottom-right).
- We believe performance should be evaluated in a fundamental context, as Graham famously suggests. Accordingly, it may be wise to examine the fundamental progress of a strategy's holdings, not just the returns, and that may help you determine if an investment portfolio is a buy, hold or sell.

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